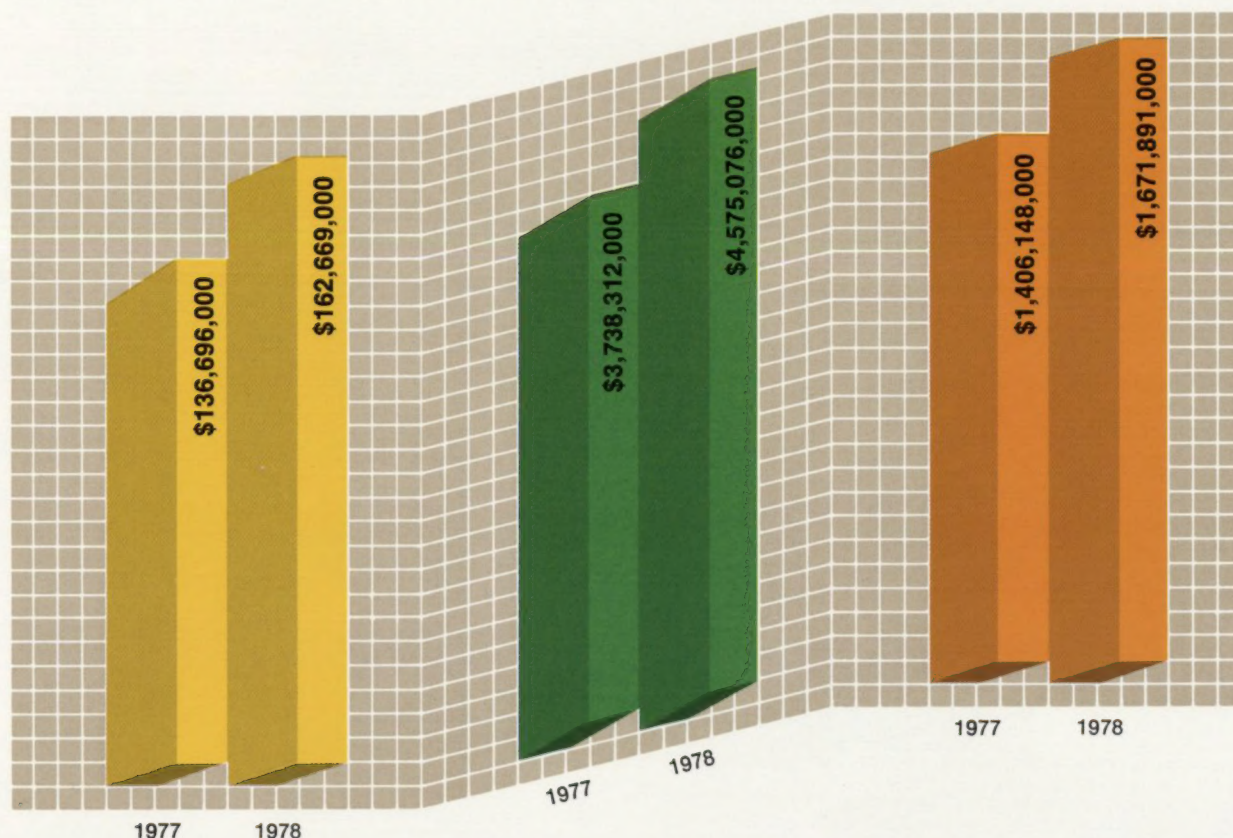


4th Quarter Report 1978

McDonald's Corporation
quarterly report for the
fourth quarter and
the year ended
December 31, 1978



Net income**Systemwide sales****Revenues****On the cover**

Until a few years ago, most McDonald's restaurants were located in suburban areas. Today McDonald's has restaurants not only where people live, but also in downtown areas where people work. These two businessmen enjoy breakfast in a McDonald's on Chicago's Michigan Avenue, the city's "Magnificent Mile" of shopping and commerce.

McDonald's highlights for the year ending December 31:

Net income: \$162,669,000, up 19 percent.

Net income per share: \$4.00, up 19 percent.

Systemwide sales: \$4,575,076,000, up 22 percent.

Revenues: \$1,671,891,000, up 19 percent.

To our stockholders:

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CORPORATION FILE

For the year and fourth quarter ended December 31, 1978, McDonald's Corporation achieved new record levels in net income, systemwide sales and revenues.

In 1978 net income was \$162,669,000, an increase of \$25,973,000 or 19 percent more than the \$136,696,000 earned in 1977. Net income per share of common stock was \$4.00, up \$.63 or 19 percent from the \$3.37 total of the previous year.

Systemwide sales (net sales by all franchised, Company-owned and affiliated restaurants) reached \$4,575,076,000 in 1978, an increase of \$836,764,000 or 22 percent more than the \$3,738,312,000 in 1977.

Revenues for 1978 were \$1,671,891,000, up \$265,743,000 or 19 percent above the \$1,406,148,000 achieved in 1977.

Net income for the fourth quarter of 1978 was \$38,508,000, 19 percent above the 1977 fourth quarter total of \$32,390,000. Net income per share of common stock was \$.95, compared to \$.80 in the year-ago quarter, an increase of 19 percent.

Systemwide sales were \$1,183,106,000 for the 1978 fourth quarter, up 19 percent from the \$992,156,000 sales achieved in the same 1977 period.

Revenues for the quarter were \$426,654,000, or 16 percent more than the \$367,728,000 total in the 1977 fourth quarter.

Your Company added 208 restaurants during the 1978 fourth quarter, bringing the worldwide total to 5,185, compared to 4,671 one year ago. At year-end, the Company had 4,465 restaurants within the United States and 720 restaurants in 24 other countries and territories. An additional 171 restaurants were under construction at year-end.

McDonald's international sales for 1978 were \$726,994,000 or 46 percent more than the 1977 sales of \$496,523,000.

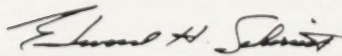
During the fourth quarter of 1978, your Company elected two officers. Both Robert T. Colvin and S. Bruce Wunner were named regional vice presidents of McDonald's Corporation.



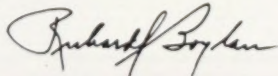
Ray A. Kroc
Senior Chairman
of the Board



Fred L. Turner
Chairman of the Board and
Chief Executive Officer



Edward H. Schmitt
President and Chief
Administrative Officer



Richard J. Boylan
Senior Executive Vice President
and Chief Financial Officer

The Board of Directors declared a cash dividend in the amount of 9 cents per share on common stock, payable March 15, 1979, to stockholders of record on February 21, 1979. On an annualized basis, the dividend is equivalent to 36 cents per share. Your dividend check is enclosed with this report.



Norman Rockwell, America's much-loved artist/illustrator, died late in 1978. In 1971 one of his paintings was featured on the cover of McDonald's Annual Report. The illustration, shown above, depicts Rockwell's interpretation of a McDonald's crew and customers. The original oil painting is on display at McDonald's corporate headquarters in Oak Brook, Illinois.

McDonald's hamburgers: the sandwiches enjoyed by billions

McDonald's first 1979 marketing campaign featured the famous taste of McDonald's hamburger sandwiches.

As part of the campaign, the Company placed print advertisements, like the one

pictured below, in such national magazines as Life, Time and Woman's Day.

The campaign re-emphasized one of the basics of McDonald's business, the hamburger—the sandwich

upon which the Company has built its worldwide success.

When the first restaurant in the McDonald's system opened in 1955, it became known for its hamburgers and cheeseburgers made with 100 percent beef patties. Quality food, fast and efficient service, clean and pleasant surroundings, and a good dollar value attracted scores of customers to this restaurant and the others that followed. Americans watched as the McDonald's signs tallied the millions—and then billions—of hamburgers served.

Over the years McDonald's added several larger hamburger sandwiches to its menu. The first was the Big Mac, introduced nationally in 1968. Four years later the Quarter Pounder and Quarter Pounder with Cheese sandwiches made their national debuts. At last count the Company had sold 28 billion hamburgers.

Each of those billions of hamburgers were—and continue to be—made with pure beef patties. And each of those patties is produced under stringent quality control standards and in strict accordance with the Company's specifications—standards and specifications which have made McDonald's hamburgers the most popular in the world.



100%

Pure beef. Pure pleasure. That's what you get in every Quarter Pounder with cheese sandwich. A lean and unmistakably good taste of 100% pure, domestic beef including cuts of chuck, round, and sirloin. No fillers. No additives. Simply pure lean beef, leaner than the ground beef most people buy.

And for cheese lovers, there's not

one, but two melted slices of our rich and golden cheese. All tucked into a freshly toasted, sesame seed bun. It's your Quarter Pounder with cheese. And we make it 100% for you.

The one and only taste



Consolidated statement of income

(Dollars in thousands, except per share amounts)

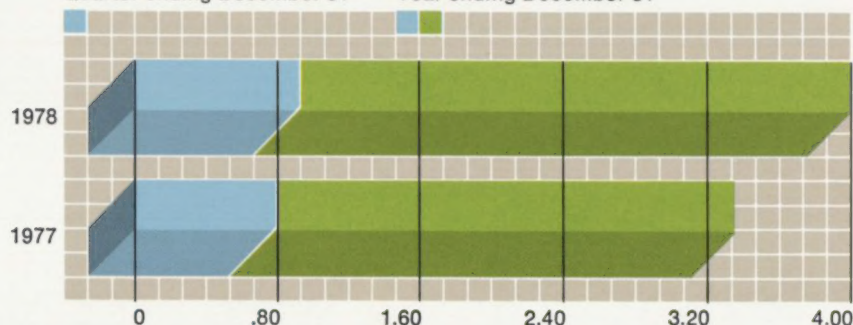
	Year ending December 31		Quarter ending December 31	
	1978	1977	1978	1977
Revenues:				
Sales by Company-owned restaurants	\$1,290,621	\$1,097,434	\$329,037	\$287,871
Revenues from franchised restaurants	352,928	286,773	92,033	76,598
Gains on sales of Company-owned restaurant businesses	13,295	8,778	2,563	7
Interest and other income—net	15,047	13,163	3,021	3,252
Total revenues	1,671,891	1,406,148	426,654	367,728
Costs and expenses:				
Company-owned restaurants	1,072,543	894,630	277,318	239,163
Expenses directly applicable to revenues from franchised restaurants	47,529	38,862	12,900	10,685
General, administrative and selling expenses	175,658	149,818	47,738	41,646
Interest expense	63,336	56,042	16,029	14,482
Total costs and expenses	1,359,066	1,139,352	353,985	305,976
Income before provision for income taxes	312,825	266,796	72,669	61,752
Provision for income taxes	150,156	130,100	34,161	29,362
Net income	\$ 162,669	\$ 136,696	\$ 38,508	\$ 32,390
Net income per share of common stock	\$ 4.00	\$ 3.37	\$.95	\$.80

Earnings per share periods ending December 31

in dollars

Quarter ending December 31

Year ending December 31



Consolidated balance sheet

(In thousands of dollars)		
	December 31, 1978	and 1977
Assets		
Current assets:		
Cash and certificates of deposit	\$ 81,602	\$ 48,136
Short-term investments	74,990	84,195
Accounts and notes receivable	49,097	43,102
Inventories	14,332	12,412
Prepaid expenses and other current assets	23,437	20,225
Total current assets	243,458	208,070
Other assets and deferred charges	68,635	60,352
Property and equipment, at cost	1,908,596	1,581,799
Less accumulated depreciation and amortization	310,823	247,734
Net property and equipment	1,597,773	1,334,065
Intangible assets, net	43,623	42,668
Total assets	<u>\$1,953,489</u>	<u>\$1,645,155</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts and notes payable	\$ 140,249	\$ 123,164
Income taxes	33,001	35,919
Other accrued liabilities	35,101	28,910
Current maturities of long-term debt	43,656	26,816
Total current liabilities	252,007	214,809
Long-term debt	782,781	687,931
Security deposits by franchisees	50,215	45,136
Deferred income taxes	72,149	54,166
Stockholders' equity:		
Common stock, no par value		
Authorized—100,000,000 shares		
Issued—40,599,305 shares in 1978		
and 40,545,199 shares in 1977	4,515	4,509
Additional paid-in capital	92,484	90,353
Retained earnings	703,826	554,106
	800,825	648,968
Less treasury stock, at cost—94,033 shares in 1978		
and 119,721 shares in 1977	4,488	5,855
Total stockholders' equity	796,337	643,113
Total liabilities and stockholders' equity	<u>\$1,953,489</u>	<u>\$1,645,155</u>

Consolidated statement of retained earnings

	Year ending December 31		(In thousands of dollars) Quarter ending December 31	
	1978	1977	1978	1977
Balance at beginning of period	\$554,106	\$423,483	\$668,966	\$521,716
Net income	162,669	136,696	38,508	32,390
Cash dividends	(12,949)	(6,073)	(3,648)	
Balance at end of period	<u>\$703,826</u>	<u>\$554,106</u>	<u>\$703,826</u>	<u>\$554,106</u>

Consolidated statement of changes in financial position

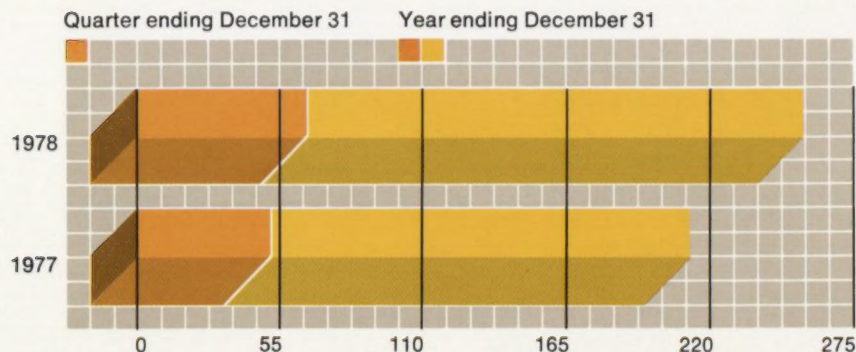
	Year ending December 31		(In thousands of dollars) Quarter ending December 31	
	1978	1977	1978	1977
Source of working capital:				
Operations—				
Net income	\$162,669	\$136,696	\$ 38,508	\$ 32,390
Items not involving working capital	93,319	75,469	28,070	20,308
Total from operations	255,988	212,165	66,578	52,698
Additions to long-term debt	312,066	156,632	85,351	70,969
Property and equipment disposals	16,976	14,825	5,436	3,596
Security deposits by franchisees	7,236	6,735	2,692	3,126
Issuance of common stock on exercise of options	4,719	690	79	381
Total source of working capital	596,985	391,047	160,136	130,770
Use of working capital:				
Additions to property and equipment	354,095	301,636	116,196	102,790
Non-current assets of businesses purchased	7,833	21,869	2,539	3,615
Notes receivable due after one year	19,425	11,134	7,294	1,773
Long-term debt reductions	215,052	64,298	42,280	24,830
Cash dividends	12,949	6,073	3,648	
Purchase of treasury stock	1,416	5,096	1,416	1,010
Other changes in financial position—net	(11,975)	(11,648)	(12,907)	(3,692)
Total use of working capital	598,795	398,458	160,466	130,326
Increase (decrease) in working capital	<u>\$ (1,810)</u>	<u>\$ (7,411)</u>	<u>\$ (330)</u>	<u>\$ 444</u>

Two year quarterly comparison

	(Dollars in thousands, except per share amounts)							
	Quarter ending December 31		Quarter ending September 30		Quarter ending June 30		Quarter ending March 31	
	1978	1977	1978	1977	1978	1977	1978	1977
Restaurants in operation at end of quarter:								
Operated by franchisees	3,573	3,184	3,426	3,029	3,340	2,959	3,239	2,881
Operated by the Company	1,406	1,338	1,375	1,288	1,347	1,244	1,343	1,221
Operated by affiliates	206	149	176	138	164	133	154	123
Total restaurants	5,185	4,671	4,977	4,455	4,851	4,336	4,736	4,225
Restaurant sales:								
Operated by franchisees	\$ 796,113	\$ 669,147	\$ 849,783	\$ 694,922	\$ 793,073	\$ 639,418	\$ 645,726	\$ 526,598
Operated by the Company	329,037	287,871	349,056	299,207	332,971	278,892	279,557	231,464
Operated by affiliates	57,956	35,138	59,157	31,612	43,477	23,077	39,170	20,966
Systemwide sales	\$1,183,106	\$992,156	\$1,257,996	\$1,025,741	\$1,169,521	\$941,387	\$964,453	\$779,028
Consolidated statement of income highlights:								
Total revenues	\$ 426,654	\$ 367,728	\$ 451,509	\$ 382,258	\$ 430,505	\$ 357,127	\$ 363,223	\$ 299,035
Income before provision for income taxes	\$ 72,669	\$ 61,752	\$ 92,745	\$ 78,496	\$ 87,052	\$ 74,259	\$ 60,359	\$ 52,289
Net income	\$ 38,508	\$ 32,390	\$ 47,950	\$ 40,045	\$ 45,186	\$ 37,939	\$ 31,025	\$ 26,322
Net income per share of common stock	\$.95	\$.80	\$ 1.18	\$.99	\$ 1.11	\$.94	\$.77	\$.65

Working capital generated from operations periods ending December 31

in millions of dollars



Financial comments

Basis of presentation

The accompanying consolidated financial statements and financial comments do not include all of the disclosures made in the Company's annual report to stockholders, but, in the opinion of the Company, include all adjustments necessary for a fair presentation.

Restaurant acquisitions and dispositions

The Company purchased restaurant businesses from franchisees and sold restaurant businesses to franchisees as follows:

	Purchased		Sold
	Number of restaurant businesses	Approximate purchase price	Number of restaurant businesses
<i>(Dollars in thousands)</i>			
Year ending			
December 31, 1978	29	\$ 7,833	82
1977	71	\$21,869	79
Quarter ending			
December 31, 1978	9	\$ 2,539	21
1977	12	\$ 3,615	8

The number of restaurants sold in the years ending December 31, 1978 and 1977 includes 42 and 35 restaurants, respectively, which were previously leased to the purchasers. The corresponding number of restaurants in the fourth quarter 1978 was 9. There were no restaurants sold which were previously leased to the purchasers in the fourth quarter 1977.

Results of operations of restaurant businesses purchased have been included in the consolidated statement of income since dates of acquisition. Results of operations of such businesses for periods prior to purchase and the results of operations of restaurant businesses sold, prior to their sale dates, were not material to the consolidated financial statements.

Management analysis

The Company again achieved record highs in Systemwide sales, Revenues and Net income for the periods ended December 31, 1978. This continued growth is reflected in all elements of the results

of operations, as the following table and discussion illustrate.

	1978 increase over 1977			
	Year ending		Quarter ending	
	December 31		December 31	
	Amount	%	Amount	%
<i>(Dollars in thousands)</i>				
Systemwide sales	\$836,764	22	\$190,950	19
Revenues—				
Sales by Company-owned restaurants	193,187	18	41,166	14
Revenues from franchised restaurants	66,155	23	15,435	20
Other revenues	6,401	29	2,325	71
Total revenues	265,743	19	58,926	16
Costs and expenses—				
Company-owned restaurants	177,913	20	38,155	16
Expenses directly applicable to revenues from franchised restaurants	8,667	22	2,215	21
General, administrative and selling expenses	25,840	17	6,092	15
Interest expense	7,294	13	1,547	11
Total costs and expenses	219,714	19	48,009	16
Income before provision for income taxes	46,029	17	10,917	18
Provision for income taxes	20,056	15	4,799	16
Net income	25,973	19	6,118	19

The increase in Systemwide sales is attributable to new restaurants opened from January 1, 1977 through December 31, 1978 and to higher average sales for existing restaurants. Although price increases do contribute to growth in revenues, their impact is not practicable to determine due to the lack of uniform pricing throughout the system and variances in product mix.

Costs and expenses related to Company-owned restaurants had a greater percentage increase than Sales by Company-owned restaurants due principally to a substantial escalation of meat costs and higher labor costs attributable to an increase in the minimum wage.

The percentage increase in Revenues from franchised restaurants is greater than the increase in Sales by Company-owned restaurants primarily because of the greater percentage increase in the number of franchised restaurants during the period. From January 1, 1977 to December 31, 1978, the number of Company-owned and operated restau-

rants increased by 189 or 16 percent as compared to an increase of 732 or 26 percent in the number of restaurants operated by independent franchisees.

Included in other revenues are gains on sales of Company-owned restaurant businesses which accounted for the larger percentage increase in the fourth quarter.

The increase in General, administrative and selling expenses over the comparable year ago periods is indicative of the Company's expanded level of operations. A greater number of employees and a growing international market have both contributed to increases in General, administrative and selling expenses.

Interest expense is also higher, resulting from additional financing for new restaurant properties acquired since January 1, 1977 and reflecting the Company's continued emphasis on owning property versus leasing. The Company feels that ownership of real estate will yield long-term benefits, among which are the anticipated continuation of appreciation in real estate values and the contra-inflationary advantages of owning versus leasing.

A comparison of the fourth quarter 1978 operating results with the third quarter 1978 generally reflects patterns of prior years and shows no significant variations.

Foreign operations

The number of restaurants located outside the United States and their sales are summarized as follows:

Number of restaurants at	December 31, 1978 and 1977	
Operated by the Company	263	239
Operated by franchisees	252	198
Operated by affiliates	205	149
	<u>720</u>	<u>586</u>

	Year ending December 31		Quarter ending December 31	
Restaurant sales	1978	1977	1978	1977
<i>(In thousands of dollars)</i>				
Operated by the Company	\$274,246	\$220,550	\$ 71,109	\$ 58,430
Operated by franchisees	252,988	165,180	67,738	46,989
Operated by affiliates	199,760	110,793	57,956	35,138
	<u>\$726,994</u>	<u>\$496,523</u>	<u>\$196,803</u>	<u>\$140,557</u>

Included in the consolidated statement of income are foreign currency exchange gains (losses) of \$(1,135,000) and \$797,000 for the years ending December 31, 1978 and 1977, respectively. Such amounts for the fourth quarter 1978 and 1977 were gains (losses) of \$(794,000) and \$20,000, respectively.

Property and equipment

In order to properly match costs with revenues, interest on borrowings, rent charges and real estate taxes related to the development of new restaurant property are capitalized through the development period.

Interest capitalized was \$5,632,000 and \$3,326,000 for the years ending December 31, 1978 and 1977, respectively. For the fourth quarter, such amounts were \$1,996,000 in 1978 and \$1,104,000 in 1977. If all interest had been expensed when incurred, net income as reported would have been reduced by the following amounts: \$2,600,000 and \$1,600,000 for the years ending December 31, 1978 and 1977, respectively; and \$1,100,000 and \$620,000 for the fourth quarter 1978 and 1977, respectively. These amounts are net of amortization of capitalized interest and related income tax effects.

Rent and real estate taxes capitalized were \$2,500,000 and \$2,200,000 for the years ending December 31, 1978 and 1977, respectively. For the fourth quarter, such amounts were \$600,000 in 1978 and \$820,000 in 1977.

Net income per share

Net income per share is computed based on the average number of common and common equivalent shares outstanding during each period: 40,667,465 and 40,565,959 in the years ending December 31, 1978, and 1977, respectively; and 40,665,983 and 40,628,836 in the fourth quarter 1978 and 1977, respectively.

**McDonald's Corporation
McDonald's Plaza
Oak Brook, Illinois 60521**

The following trademarks and
service marks referred to in
this report are owned by
McDonald's Corporation:
McDonald's
Big Mac
Quarter Pounder
Quarter Pounder with Cheese

